

- **Unemployment rate drops to 5.8% in August, as job growth resumes**
- **Housing starts continue to see-saw, falling 8.7% in August**
- **Fewer consumer and corporate bankruptcies**

Labour Force

- **British Columbia's unemployment rate dropped back to 5.8% (*seasonally adjusted*) in August, after a brief upturn (to 6.2%) in the previous month.** The improvement in the jobless rate was the result of renewed job growth (+0.4%), combined with a stable labour force (unchanged at 2,265,000 in August).

Employment rose to 2,133,000 in August after stalling in the previous month. In contrast to the situation in July, when many service sector employers pared down the size of their workforce, service sector employment increased (+0.6%) last month. Retail and wholesale trade (+3.8%), health care (+3.3%) and public administration (+3.1%) made particularly strong gains. The management & administration services industry also hired more workers (+3.0%). However, tourism-related industries such as accommodation & food services (-2.9%) and transportation & warehousing (-2.1%) cut back on their staff.

Data Source: Statistics Canada

- **In the goods sector, there were 0.6% fewer jobs, as employment fell in most industries.** Manufacturing, the biggest employer among the goods industries, reduced its workforce 2.2%, but this was partly mitigated by an increase in the number of construction workers (+2.9%). There were fewer jobs in agriculture (-9.5%) and utilities (-9.4%), but more workers in primary industries such as forestry, fishing & mining (+6.5%).

The number of women with jobs rose 1.1% in August. However, the job market for men continued to tighten. Male employment slipped for the third straight month, falling 0.3% in August, and the male labour force shrank (-0.9%) for the first time since March.

Self-employment advanced 0.6%. Among employees, job gains were concentrated in the private sector (+0.6%). The number of public sector jobs fell 0.6%. Full-time employment was down 0.6%, but the number of part-time jobs increased 4.1%.

Data Source: Statistics Canada

- **Job markets were generally upbeat in most regions of the province.** Relative to August 2004, only Kootenay (-0.7%, 3-month-moving average, unadjusted) and Cariboo (-0.9%) saw employment decline. For the fifth straight month, North Coast-Nechako posted a double-digit increase (+19.1%).

Regional unemployment rates reflected the robust job growth. In August, jobless rates ranged from 4.2% in Northeast to 7.0% in Cariboo. Mainland/Southwest (6.3%) had the second-highest unemployment rate in the province. In Vancouver, the unemployment rate was 6.4%. Victoria's jobless rate was just 4.1%.

Data Source: Statistics Canada

- **Canada's unemployment rate was unchanged at 6.8% in August, a full percentage point higher than BC's.** Nationally, both the labour force and the number of jobs increased at the same rate (+0.2%). The four western provinces had the lowest unemployment rates in the country, ranging from 3.9% in Alberta to BC's 5.8%.

Data Source: Statistics Canada

The Economy

- **Housing starts eased back in August, falling 8.7% (*seasonally adjusted*).** Starts have been volatile in recent months, bouncing up and down, but showing little change over the long run. Year-to-date, starts in BC are 1.8% lower than in the first eight months of 2004.

Canadian starts plunged 17.1% in August, the result of downturns in three of the four largest

Did you know...

Whisky and vodka are the top-selling spirits in BC and other parts of western Canada, but Atlantic Canadians have a distinct preference for rum.

provinces. Ontario (-34.5%) and Quebec (-14.1%) both posted substantial declines. Starts rose slightly in Alberta (+0.6%), and increased solidly in Saskatchewan and the Atlantic provinces, but the combined effect was not enough to offset the downturn in central Canada and BC.

Data Source: Statistics Canada

- The value of building permits issued by BC municipalities fell (-11.8%, *seasonally adjusted*) in July, as permits for both residential (-10.6%) and non-residential (-13.8%) projects declined. Planned investment in new commercial projects was down 30.0%, but intended investment in industrial (+7.7%) projects remained robust. Permits for institutional and government buildings edged up 0.6%.

Data Source: Statistics Canada

- During the first seven months of 2005, the value of building permits issued in the province increased 17.5% (*unadjusted*) over the same period of last year. Investment intentions were robust in all regions of the province, although the Mainland/Southwest area saw a relatively modest increase of 6.9%. In other parts of the province, the building boom appears to be well-entrenched. North Coast (+88.2%) and Cariboo (+82.2%) stood out among the regions in terms of growth, with less substantial increases seen in other parts of the province, ranging from +24.6% in Vancouver Island/Coast to +69.1% in Kootenay. Permits for residential construction projects were up in all parts of the province except Mainland/Southwest (-12.2%), but since more than 60% of total residential permits were issued in this region, the overall increase for the province was modest (+0.5%). Mainland/Southwest (-7.6%) and Northeast (-38.4%) were the only regions of the province where the value of industrial permits was lower than in the first eight months of 2004.

Data Source: Statistics Canada & BC Stats

- A total of 707 consumer bankruptcies were registered in the province in June. This was 15.0% less than in the same month last year. Alberta (-12.8%) also posted a substantial decline in consumer bankruptcies, while bankruptcies edged down 0.4% in Ontario. The

Canadian number slipped 1.0%, despite increases in all the other provinces.

There were 61 business bankruptcies registered in BC in June, more than half of them in primary industries such as agriculture, forestry & fishing (13), construction (11) and manufacturing (11). Business bankruptcies were down 18.7% from June 2004.

Data Source: Industry Canada

Beer, Wine and Spirits...

- British Columbians aged 15 and over spent an average of \$632 on beer, wine and spirits in 2004, more than in any other province except Quebec (\$682) and Newfoundland (\$734). Spending in the territories was even higher (\$859 in NWT including Nunavut and \$1035 in Yukon). The national average was \$624.

Beer (\$283) accounted for the biggest share of spending, followed by spirits (\$184) and wine (\$166). Nationally, per capita expenditures on beer (\$316) were about the same as the total amount spent on wine (\$153) and spirits (\$154). Quebec was the only province where per capita wine sales (\$231) were considerably higher than sales of spirits (\$82).

Provincial and territorial liquor authorities earned \$4.3 billion from sales of alcoholic beverages in 2004. In BC, sales jumped 11.1% to \$734 million, the second-biggest increase in the country (after Yukon, +14.9%). Canadian sales were up just 7.2%.

Data Source: Statistics Canada

The Nation

- Capacity use by Canadian industries edged up to its highest level (86.7%) in nearly five years during the second quarter. Forestry & logging (94.7%) and mining (94.8%) establishments were operating at near full capacity. The oil and gas sector (82.6%) ramped up production, as did electric utilities (88.4%). However, the manufacturing sector recorded the first downturn in a year, with utilization dropping to 86.7%, partly because the dominant auto sector slowed down. Both the wood (94.2%) and paper (90.5%) industries continued to operate at more than 90% of full capacity.

Data Source: Statistics Canada

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Removal of Textile Quotas Tailor-Made for Protectionist Fervour

For 30 years, trade in clothing and textiles was restricted by global import quotas that were designed to protect the domestic industry in developed nations such as the United States, the European Union and Canada. On January 1st, 2005, these quotas were finally removed, liberalizing trade in these goods and giving countries such as China and India unlimited access to the lucrative markets of the developed nations. However, this new era of liberalized trade appears to have been short-lived as the United States and the European Union have already introduced measures to curb shipments arriving from China on the heels of a flood of clothing and textile imports from that country. Textile workers in Canada are demanding that the Canadian government follow suit in a bid to protect their jobs.

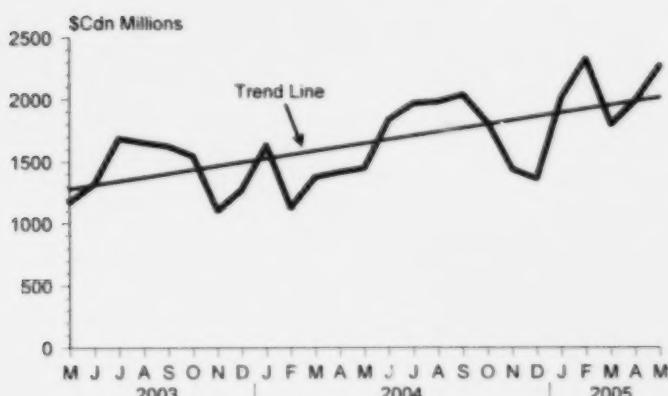
This backlash was anticipated in China even before the quotas were lifted. In order to avert these types of protectionist manoeuvres, China implemented export duties on 78 clothing and textile goods and were planning to bring in 74 more tariffs starting in June in response to concerns expressed by the United States and the European Union. However, both the US and the EU have complained that the measures have not done enough to stem the deluge of Chinese textile products flowing into those regions and both have decided to impose their own import restrictions. Under World Trade Organization rules, they are allowed to limit imports of Chinese clothing and textiles to 7.5% over levels shipped between March 2004 and February 2005 and can apply this barrier until 2008. The restrictions imposed by the US and the EU have prompted China to withdraw the export duties on the 78 goods that were already in place, plus three of those that were planned. China's stance is that if certain products have limits imposed upon them by other countries, China will exclude those products from export tariffs.

Over the first five months of 2005, American imports of clothing and textiles from China (valued in Canadian dollars) have soared 48.3% over the value imported in the same period in 2004, rising to \$10.4 billion from just under \$7 billion. This seems to suggest that the fears of clothing and textile manufacturers in the United States are justified, but a closer look at imports of these goods regardless of origin shows that there has been only a 3.0% rise in the value of overall clothing and textile imports into the US so far this year. In other words, imports of these goods from other countries have fallen (-5.8%) as China has assumed a larger market share.

Global import quotas on clothing and textiles have been removed, which has lobby groups in developed nations calling for protectionist actions

The United States and the European Union have already decided to impose import restrictions on clothing and textiles from China

American imports of clothing and textiles from China are up significantly year-to-date

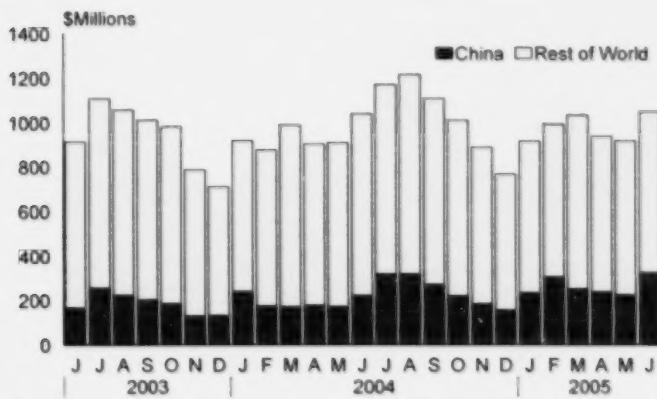


Source: Industry Canada, US Department of Commerce

American clothing and textile imports from China are up 48% year-to-date to May compared to 2004, but total clothing and textile imports have climbed only 3%

The story is similar in Canada. While imports of clothing and textiles from China have risen 36.2% over the January to June period, overall imports of these goods are up only 3.6%. Shipments from countries other than China actually fell 4.8% over the first half of 2005.

Canadian imports of textile products from China have risen significantly year-to-date, but overall imports are only up slightly



Source: Statistics Canada

It is the same for Canada—imports of clothing and textiles from China are up 36% year-to-date to June, but overall, the increase was only 4%

It should be noted that the price of some of these goods has fallen, so looking at only the value of imports hides some of the increase in actual quantities shipped. When growth in quantity of imports is taken into account, the increase is much larger. Since different types of clothing and textiles have different quantity measures, a simple analysis of change in quantity for the entire clothing and textile product category

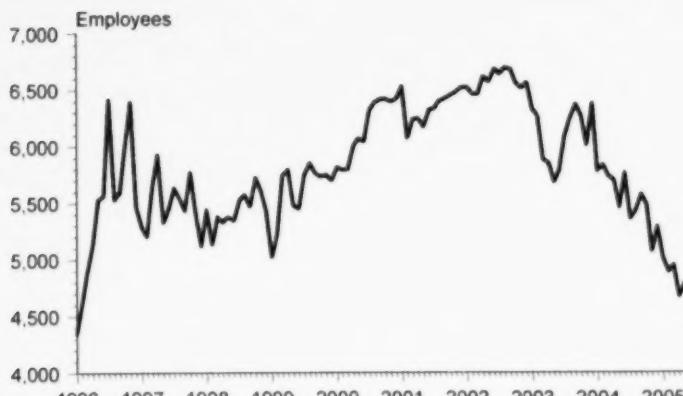
is not possible, but it is clear from looking at the data by individual commodity that the relaxation of import quotas has reaped significant benefits for consumers in terms of price breaks, while causing headaches for domestic manufacturers due to increased competition as well as the lower prices received for their goods.

For certain goods in particular, the influx from China since the start of the year has been phenomenal. For example, the quantity of Canadian imports of Chinese knitted or crocheted products such as women's or girls' overcoats, cloaks, etc. and men's and boys' underwear, pyjamas, etc. have skyrocketed over 600% and 700% respectively year-to-date. With this in mind, it comes as no surprise that unions representing workers in Canada's apparel manufacturing industry are pressing the government to follow the lead of the United States and the European Union and impose restrictions on Chinese imports.

In British Columbia, employment in clothing manufacturing has been slumping since reaching a peak in 2002. From May 2002 to May 2005, there was a 27.2% drop in employment in this industry, from about 6,600 people down to 4,800 workers.¹ For Canada as a whole, the industry has shed over a third (-36.8%) of its workers in that three-year period.

Quantities of some Chinese clothing imports have jumped 600% to 700% in the first half of 2005

Clothing manufacturing employment in British Columbia has plunged in the last few years



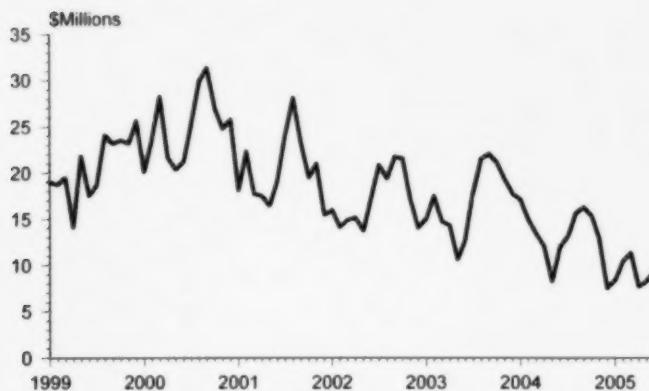
Source: Statistics Canada

Since 2002, BC's clothing manufacturers have shed approximately one quarter of their employees

¹ Seasonally adjusted data at this industry detail is not available, so it is difficult to say how much of the decline in employment since the beginning of 2005 is attributable to regular seasonal factors and how much is due to other reasons.

Exports of clothing from British Columbia have been falling over an even longer period, starting their downward trend in 2001. BC origin exports of apparel and accessories have plunged 56.1% from June 2000 to June 2005. The value of clothing exports in the first half of 2005 are 28.7% lower than that recorded in January to June 2004.

Clothing and apparel exports from BC have been falling for years



Source: Statistics Canada

BC origin exports of apparel and accessories have been on a downward slide since peaking in 2000

It is easy to understand why Canadian, American and European manufacturers of clothing and textiles are calling for limits on imports of these goods from China, but it is more difficult to justify actually imposing these limits. The schedule to remove quotas from clothing and textiles was laid out ten years ago giving the industry ample time to prepare for the new quota-free era, so arguments that domestic industries should be given time to adjust to the increase in competition may not stand up to scrutiny.

A more reasonable case can be made that China offers its industry an unfair advantage because it hasn't allowed its currency to rise in value proportionate to the rise in its trade balance, as it undoubtedly would if it was free floating. As a result, goods purchased from China are not subject to the normal inflationary exchange rate pressures. The recent move by China to revalue its currency and remove the fixed link to the US dollar is seen as a positive first step, but it is still a far cry from the free floating currency that the rest of the world wants to see.

China has recently revalued its currency

The currency revaluation may ease protectionist pressures somewhat, but as long as domestic industries feel threatened by imports, there will be demands for tariffs or quota arrangements. Unless it is proven that China is truly offering its industries unfair advantages, it would be difficult to defend imposing such trade barriers.



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BC at a glance . . .

POPULATION (thousands)		Apr 1/05	% change on one year ago
BC	4,232.5	1.2	
Canada	32,146.5	0.9	
GDP and INCOME		2004	% change on one year ago
(BC - at market prices)			
Gross Domestic Product (GDP) (\$ millions)	156,481	7.5	
GDP (\$ 1997 millions)	138,783	3.9	
GDP (\$ 1997 per Capita)	33,072	2.8	
Personal Disposable Income (\$ 1997 per Capita)	20,002	1.2	
TRADE (\$ millions, seasonally adjusted)		Jul '05	12-month avg % change
Manufacturing Shipments - Jun	3,551	-0.8	
Merchandise Exports - Jun	2,858	7.7	
Retail Sales - Jun	4,122	-0.1	
CONSUMER PRICE INDEX		Aug '05	12-month avg % change
(all items - 1992=100)			
BC	125.7	2.0	
Canada	127.5	2.1	
LABOUR FORCE (thousands)		Aug '05	% change on prev. month
(seasonally adjusted)			
Labour Force - BC	2,265	0.0	
Employed - BC	2,133	0.4	
Unemployed - BC	132	-6.0	
Unemployment Rate - BC (percent)		Jul '05	6.2
Unemployment Rate - Canada (percent)	5.8	6.8	
INTEREST RATES (percent)		Sep 7/05	Sep 8/04
Prime Business Rate	4.25	3.75	
Conventional Mortgages - 1 year	5.00	4.60	
- 5 year	5.80	6.40	
US/CANADA EXCHANGE RATE		Sep 7/05	Sep 8/04
(avg. noon spot rate) Cdn \$	1.1863	1.2902	
US \$ (reciprocal of the closing rate)	0.8415	0.7747	
AVERAGE WEEKLY WAGE RATE		Aug '05	% change on one year ago
(industrial aggregate - dollars)			
BC	702.66	2.1	
Canada	708.30	4.2	
SOURCES:			
Population, Gross Domestic Product, Trade,	Statistics Canada		
Prices, Labour Force, Wage Rate			
Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics			
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